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Report Highlights:

While Russian demand for dairy products grow with the economy domestic production has not been able to overcome constraints that have reduced output. Major dairy exporting and neighboring countries have an export opportunity in Russia.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
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Executive Summary

Russian dairy production remains stagnant, and the herd size continues to decline as a result of a list of problems in the industry. Most significantly, a lack of investment and poor management prevent the dairy sector from turning the corner despite better feed supplies from this year's grain harvest to prevent a decline in overall output of dairy products during 2001. An improving economic situation is leading to stronger domestic demand for dairy products. However, the majority of Russian farmers continue to produce low quality products, missing the benefits of growing demand. Meanwhile, competition among processors for limited production of high quality raw milk is currently pushing up prices for raw milk, and processor support for a limited group of farmers is leading to improvements among these producers. Russia is expected to heavily rely on imported milk products for quite some time.

Production

Russia produced three times more milk ten years ago than it does today. According to Russian statistics, approximately half of Russia's Dairy cattle are raised by individual families in small villages, while some 48 percent are raised on medium to large farms.

Currently, Russia has some 29 million head of cattle, including 12.5 million milking cows, approximately four percent less than last year. Although overall raw milk production is flat, according to the State Statistics Committee, per cow milk output increased by nine percent on large farms during the period of January to August 2001 in comparison with the same period of 2000.

Whole milk production in Russia is not expected to grow significantly in the near future. Investment in the dairy sector remains low, as returns for capital investment are long term – up to 7 years. In contrast to Western production practices involving large scale operations, in Russia, small scale insufficiently financed operations continue to be unable to deliver sufficient amounts of quality products to processors. Average milk yield per cow is low compared with western standards. Furthermore, less than 5 percent of milk processing plants in Russia can handle more than 50 tons of milk per day.

Faced with little state support for the dairy industry, several large processors have begun equipment leasing operations in support of farmers supplying them with raw milk. As a result of this support, milk production and quality on these farms is increasing. Competition is stiff in regions where processors compete for farms with good management, technology, and high quality milk. Despite the relatively flat level of whole milk output, production of products like cheese and milk powder have been steadily growing, as a result of large companies' support for a few local farmers delivering better quality milk.

Russia's dairy sector is plagued with problems: 1) a lack of investment, as many investors are reluctant to take on the risk and long term investment returns of the sector; 2) as a result of a poor salaries, management expertise on farms is lacking, and few farms have qualified personnel for crafting the proper diet from feed components; 3) lack of genetics; 4) lack of proper knowledge regarding breeding practices -- farms cannot improve their breeding cycles in order to maximize milk production, and many cows do not even give birth once per year; 5) an insufficient quantity of quality livestock fodder.

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Fluid					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Cows in milk, 1,000 heads	12900	12900	12300	12500	0	12480
Cows Milk Production	31900	31900	32100	32100	0	33000
Other Milk Production	0	0	0	0	0	0
TOTAL Production	31900	31900	32100	32100	0	33000
Intra EC Imports	0	0	0	0	0	0
Other Imports	14	70	20	84	0	85
TOTAL Imports	14	70	20	84	0	85
TOTAL SUPPLY	31914	31970	32120	32184	0	33085
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	5	5	5	0	5
TOTAL Exports	5	5	5	5	0	5
Fluid Use Dom. Consum.	14100	14156	14080	14118	0	14157
Factory Use Consum.	14609	14609	14900	14920	0	15805
Feed Use Dom. Consum.	3200	3200	3135	3141	0	3118
TOTAL Dom. Consumption	31909	31965	32115	32179	0	33080
TOTAL DISTRIBUTION	31914	31970	32120	32184	0	33085

Table 1: Butter Production in 2000

Commodity	1999	2000	2000 as % of 1999	January - August 2001 as % of January - August 2000
Butter, MT	262	265	101.4	103
Margarine, MT	377	455	120	115

Source: Russian State Statistic Committee

Table 2: Production of Various Dairy Products, 1997 - 2000

Commodity	1997	1998	1999	2000
Cheese	174	185	185	213
Whole milk products, calculated as milk, 1,000 MT	36,926	37,046	37,076	36,927
Liquid and paste milk baby products, 1,000 M T	63	143	180	177

Source: Russian State Statistic Committee

Consumption

Demand for Russian pasturized milk products, kefir, and low-fat yogurt have grown substantially since the 1998 economic crisis, however, consumption of dairy products remains far below the Russian Academy of Science recommended 360 kilograms per capita per annum. Although Russia produced more milk a decade ago, marketing was poor, and there were only three or four varieties to choose from. Today, there is much more choice. Most Russian consumers still prefer high fat content dairy products, but more and more young generation consumers are trending towards low fat milk products. Market research indicates that yogurt products continue to enjoy great acceptance and market potential. Lower income consumers prefer less processed whole milk products like raw milk and kefir. In contrast, middle class and those with high incomes demand more yogurt and cheese products.

Trade

In 2001, the structure of Russia's import market for dry milk powder significantly changed in comparison with 2000. As a consequence of foot- and-mouth disease in Europe, subsidized imported product became unavailable. Russian processors turned to neighboring CIS countries to fill the gap, and imports from Belarus and Ukraine grew sharply. Although overall imports of dry milk powder grew approximately 8 percent the output from these countries not cover demand. In the foreseeable future, the demand for imported products is

expected to remain strong, as Russian producers continue to struggle to supply sufficient amounts of quality raw material for local processors.

Economic growth coupled with lack of sufficient investment in domestic dairy production point to an increasing role for imported products. Russia is expected to increase imports of fluid milk, butter, cheese, and non-fat dry milk powder. Ukraine and Belarus are becoming more significant players in the Russian dairy import market. However, some traditional exporters are also increasing their presence as well. New Zealand is a major supplier of butter, and dry whole milk powder; Finland supplies fluid milk and butter products; and Germany continues to supply fluid milk, non-fat dry milk, and cheese to Russia.

Table 3: Russian Butter Imports, 1999-2001

HSC 04.05	1999		2000		January-June 2001	
	MT1,000	\$1,000	MT1,000	\$1,000	MT1,000	\$1,000
TOTAL	37,899	61,500	52,674	74,379	52,832	62,898
New Zealand	16,929	28,792	9,714	14,365	7,935	8,624
Finland	1,067	1,850	3,456	5,113	6,625	7,676
US	108	174	80	128	0	0
Australia	1,555	2,561	2,930	4,265	2,832	4,228
Czech rep.	1,648	2,447	905	1,430	4,316	4,148
Germany	897	1,196	1,377	1,948	1,123	1,061
Ukraine	9,329	14,723	31,608	42,544	24,533	31,723
Argentina	104	107	1,215	1,207	NA	NA

Source: Russian State Customs Committee

Table 4: Russian Imports of Concentrated Milk, 1999 - 2001

04.02	1999		2000		January - June 2001	
	1,000 MT	\$1,000	1,000 MT	\$1,000	1,000 MT	\$1,000
TOTAL	180,820	119,312	48,023	43,612	25,896	35,605
Including						
Germany	23,252	12,929	7,549	3,799	1,115	1,062
Netherlands	4,884	4,279	894	568	189	73
Lithuania	17,156	5,845	4,009	2,231	1,367	575
US	25,026	30,465	16,529	23,421	3,848	8,797
Latvia	13,334	3,326	2,535	544	66	9
Ukraine	15,568	16,342	2,185	1,605	17,997	23,779
New Zealand	4,403	2,123	3,461	1,221	337	191
Finland	8,905	3,416	1,069	632	272	237

Source: Russian State Customs Committee

Table 5: Russian Cheese Imports, 1998 - 2001

	1998		1999		2000		January - June 2001	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
QI	191	48,895	120	6,021	262	6,811	280	23,855
QII	463	19,326	369	3,828	893	8,011	1,020	26,935
QIII	996	9,128	602	4,113	1,090	8,165	NA	NA
QIV	377	6,563	359	5,773	430	12,375	NA	NA
TOTAL	2,027	83,912	1,450	19,735	2,675	35,362	2,300	50,890

Source: Russian State Customs Committee

Policy

Tariffs

On November 29, GOR Decree #148, "On partial changes to GOR, Decree No. 886" issued February 22, 2000, was officially published. New tariffs for thousands of items were applied beginning January 1, 2001, and remain in force until July 2002. Among dairy products, duties on dry powder milk and yogurt rose from 10 to 15 percent, whereas the tariff for butter fell from 20 to 15 percent (See RS0063).

Russia to Introduce New Value Added Tax for Dairy Products

The applied VAT on dairy products is currently 10 percent, as a result of concessions that the GOR allows to be applied to the general VAT of 20 percent (see GAIN report RS0001). According to sources, the Russian Government is considering lowering the general VAT to 16 - 17 percent, while at the same time eliminating concessions on this tax. Proposals to cut the VAT and eliminate tax concessions will be discussed in the State Duma early next year.

Russia to Introduce New Standards for Butter and Margarine

In 2002, Russia is expected to introduce new standards for butter and margarine, according to the director of the National Fund for Protection of Consumers, Alexander Kalinin. According to Kalinin, up to 80 percent of domestic items appearing on the market classified as butter contain vegetable oil, as producers substitute ingredients to reduce costs.

Marketing

Prices

As a consequence of foot and mouth disease and short dairy supplies in Europe, subsidized exports from the EU to Russia ceased. Prices of imported milk products climbed as Russian companies were unable to source sufficient quantities of raw material from alternative exporters. If, for example, in 2000 the wholesale price of whole dry milk powder was 37 rubles per kilogram (approximately \$1.27), then today the price is 56 rubles (approximately \$1.89). Russian production remains unable to satisfy processor demand for quality raw material. Therefore, the retail price of milk products is expected to rise in the near term, making the market more attractive for exporters.

Table 6: Retail Prices for Dairy Products, 2001

Date	Milk, fluid (Rubles/kg)	Butter (Rubles/kg)	Cheese (Rubles/kg)	Farmers cheese (Rubles/kg)	Vegetable Oil (Rubles/kg)	Margarine (Rubles/kg)
January 2001	10.09	69.8	90.13	40.89	23.29	32.17
March 2001	10.4	70.25	101.84	43.73	23.46	31.89
July 2001	9.92	67.27	98.52	41.52	25.25	31.74
August 2001	9.95	67.21	96.06	41.67	25.98	32.03

Source: Russian Dairy Trade Newspaper

Table 7: Comparison of Russian Food Prices, 2000 and 2001

Products	September 2001	
	as percent of August 2001	as percent of December 2000
Milk and dairy products	101.7	104.5
Butter	101.1	98.3
Bread and bakery products	99.9	111.3
Grist and legumes	99.8	98.1
Pasta	101	108.4
Meat and poultry	101.1	126.4
Fish and seafood products	101.2	118.1
Vegetable oil	104.4	116.7
Fruits	89.8	115.4
Sugar	98.3	99

Source: Russian Magazine Ekonomika Zhizn, #42, October, 2001

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Butter					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	40	40	30	30	27	30
Production	265	265	275	280	0	290
Intra EC Imports	0	0	0	0	0	0
Other Imports	60	60	65	102	0	110
TOTAL Imports	60	60	65	102	0	110
TOTAL SUPPLY	365	365	370	412	27	430
Intra EC Exports	0	0	0	0	0	0
Other Exports	3	3	3	3	0	4
TOTAL Exports	3	3	3	3	0	4
Domestic Consumption	332	332	340	380	0	396
TOTAL Use	335	335	343	382	0	400
Ending Stocks	30	30	27	30	0	30
TOTAL DISTRIBUTION	365	365	370	412	0	430

PSD Table						
Country:	Russian Federation					
Commodity:	Dairy, Cheese	1,000 MT				
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	7	7	7	7	8	8
Production	220	220	230	260	0	300
Intra EC Imports	0	0	0	0	0	0
Other Imports	60	60	62	100	0	100
TOTAL Imports	60	60	62	100	0	100
TOTAL SUPPLY	287	287	299	367	8	408
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	5	5	5	0	10
TOTAL Exports	5	5	5	5	0	10
Human Dom. Consumption	275	275	286	354	0	398
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	275	275	286	354	0	398
TOTAL Use	280	280	291	359	0	408
Ending Stocks	7	7	8	8	0	0
TOTAL DISTRIBUTION	287	287	299	367	0	408

PSD Table						
Country:	Russian Federation		1,000MT			
Commodity:	Dairy, Dry Whole Milk Powder					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	0	0	0	0	0	
Production	75	75	85	85	0	95
Intra EC Imports	0	0	0	0	0	0
Other Imports	30	25	40	25	0	30
TOTAL Imports	30	25	40	25	0	30
TOTAL SUPPLY	105	100	125	110	0	125
Intra EC Exports	0	0	0	0	0	0
Other Exports	5	5	6	6	0	10
TOTAL Exports	5	5	6	6	0	10
Human Dom. Consumption	100	95	119	104	0	115
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	100	95	119	104	0	115
TOTAL Use	105	100	125	110	0	125
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	105	100	125	110	0	125

PSD Table						
Country:	Russian Federation			1,000MT		
Commodity:	Dairy, Milk, Nonfat Dry					
		2000		2001		2002
	Old	New	Old	New	Old	New
Calendar Year Begin		01/2000		01/2001		01/2002
Beginning Stocks	0	0	0	0	0	0
Production	125	125	130	135	0	150
Intra EC Imports	0	0	0	0	0	0
Other Imports	30	51	40	50	0	50
TOTAL Imports	30	51	40	50	0	50
TOTAL SUPPLY	155	176	170	185	0	200
Intra EC Exports	0	0	0	0	0	0
Other Exports	10	48	10	10	0	0
TOTAL Exports	10	48	10	10	0	15
Human Dom. Consumption	145	128	160	175	0	185
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	145	128	160	175	0	185
TOTAL Use	155	176	170	185	0	200
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	155	176	170	185	0	200

Import Trade Matrix		
Country:	Russian Federation	Units: MT
Commodity:	Dairy, Milk, Fluid	
Time period:	CY	
Imports for	2000	2001
U.S.	3000	4000
Others		
Finland	18000	20000
Lithuania	8000	9000
Germany	25000	27000
Estonia	1000	2000
Australia	1000	1500
Ukraine	4000	6000
Belorus	4000	6000
Netherlands	4000	5000
France	1200	2000
Total for Others	66200	78500
Others not listed	800	1500
Grand Total	70000	84000

Import Trade Matrix			
Country:	Russian Federation	Units:	MT
Commodity:	Dairy, Butter		
Time period:	CY		
Imports for	2000	2001	
U.S.	100	120	
Others			
New Zealand	10000	16000	
Netherlands	200	1000	
Ukraine	24,000	30000	
Finland	4000	14000	
Lithuania	200	300	
Germany	2800	2500	
Australia	2000	5000	
Belorussia	14000	27000	
Check Republic	800	5000	
Total for Others	58000	100800	
Others not listed	1900	1080	
Grand Total	60000	102000	

Import Trade Matrix			
Country:	Russian Federation	Units:	1,000'MT
Commodity:	Dairy, Cheese		
Time period:	CY		
Imports for	2000	2001	
U.S.	1	1	
Others			
Germany	10	12	
Nurtheland	1	3	
New Zealand	8	10	
Poland	10	12	
Finland	2	5	
Estonia	1	2	
Lithuania	2	3	
Ukraine	8	22	
Belorussia	12	20	
Total for Others	54	89	
Others not listed	5	10	
Grand Total	60	100	

Import Trade Matrix		
Country:	Russian Federation	Units: MT
Commodity:	Dairy, Dry Whole Milk Powder	
Time period:	CY	
Imports for	2000	2001
U.S.	400	400
Others		
Germany	1500	1500
New Zealand	3000	3000
Belgium	800	800
Lithuania	3000	3000
France	400	400
Netherlands	400	400
Ukraine	6000	6000
Belorus	6000	6000
Finland	1000	1000
Total for Others	22100	22100
Others not listed	2500	2500
Grand Total	25000	25000

Import Trade Matrix			
Country:	Russian Federation	Units:	MT
Commodity:	Dairy, Milk, Nonfat Dry		
Time period:	CY		
Imports for	2000	2001	
U.S.	16000	8000	
Others			
New Zealand	3000	4000	
Ukraine	6000	7000	
Lithania	4000	4000	
Czech Republic	2000	2000	
Germany	7000	8000	
France	2000	3000	
Ireland	1000	1000	
Finland	2000	3000	
Argentina	800	1000	
Great Britain	500	1000	
Belorus	4000	6000	
Total for Others	32300	40000	
Others not listed	3000	2000	
Grand Total	51300	50000	